

**Testimony Given Before the U.S. House of Representatives Committee on
Agriculture: Subcommittee on Risk Management and Specialty Crops
March 15, 2006**

Mr. Chairman, my name is Robert W. Parkerson. I serve as President of National Crop Insurance Services (NCIS), on whose behalf my testimony is presented today. I would like to thank you for the opportunity to present this testimony.

NATIONAL CROP INSURANCE SERVICES

NCIS is a nonprofit trade association whose member companies include every crop insurance company that participates in the federal crop insurance program. NCIS has worked actively with the Risk Management Agency (RMA) as an approved contractor and with the Board of the Federal Crop Insurance Corporation (FCIC) as an expert reviewer. We have received 13 risk management education grants or research awards over the last several years and have served as expert reviewers on six projects.

NCIS is also a licensed statistical agent for Crop-Hail insurance in all required states, and assists the crop insurance industry in meeting the regulatory requirements of the individual states. This is accomplished by filing the appropriate material and statistical information with respective state insurance departments. Further, NCIS serves as liaison with individual state insurance departments through active participation with the National Association of Insurance Commissioners (NAIC).

NCIS has a series of technical standing committees that tap the talents and skills of our membership. These committees deal with a diverse set of subject matters including loss adjustment procedures, statistical data gathering, industry public relations and industry legal issues.

NCIS also utilizes a regional/state committee structure that sponsors various loss adjuster educational activities throughout the year. NCIS and its staff work hard to offer our members valuable educational conferences, schools, field days, and training modules to use when training their agents and adjusters. Over 2,000 people attended one or more of these educational forums in the past year. This is in addition to the numerous training sessions that member companies hold for their individual agents and adjusters. The regional committees also actively participate in the development of the industry-wide crop research agenda.

NCIS and its committees work closely with RMA to help refine loss adjustment policy and procedural requirements in this increasingly complex program. Just since the last SRA was put in place, 49 loss adjustment handbooks and 50 crop policies have been written or revised. NCIS and its member companies spend many hours studying the effects of these changes before a single handbook or policy is released.

In 2005, NCIS member companies wrote more than \$3.9 billion in MPCl and related revenue products premium and over \$434 million in private Crop-Hail insurance products premium. The potential liability between both programs was \$59 billion. The protection provided represents approximately 80 percent of the total acres planted to principal crops in the United States. NCIS member companies service policies that encompass all farmers participating in the federal and private programs, including limited resource and socially disadvantaged farmers. In partnership with the government, our participating member companies are the safety net that equitably provides risk management to the American farmer.

PROGRAM REVIEW

Since 1994, there has been a significant increase in the level of participation in the program and an expansion of the insurance products available to our farmers. Insured acres have increased; revenue products became more widely available; and Congress has continued to expand the program.

However, with rapid expansion comes the possibility of creating program vulnerabilities. There are several existing crop insurance programs that the Industry feels need to be reviewed before any further changes or expansions are put in place. These include: GRP, GRIP, AGR and AGR-Lite.

We believe the concepts and basic fundamentals that underlie AGR and AGR-Lite are an important part of this program and can fill a need for many farmers in the country. However, we do have some concerns with how they work. Recently, NCIS formed a workgroup of industry members that met to discuss many of the concerns associated with these programs. Another meeting has been scheduled to work through some solutions that could be implemented to make these programs stronger.

The group programs, GRP and GRIP, have grown rapidly in recent years, with a combined premium in excess of \$225 million for the 2005 crop year. In spite of the expansion of these programs in the marketplace, the crop insurance industry has expressed to RMA a number of reservations regarding their structure and performance.

One of the most critical issues with regard to the group programs is that of equitable treatment of policyholders. One grower may have a poor yield due to factors beyond his control, yet not be eligible for an indemnity because the county as a whole has done well. Conversely, a grower in another county may be paid an indemnity even when his own yield is excellent. These issues can create strains within the program whenever certain producers feel that they or other producers have not been treated fairly. Repeated over several years, such experiences can undermine our farmers' confidence in crop insurance as their most reliable risk management tool.

A second industry concern is that the growth of the group programs has been facilitated by much lower rates and much higher subsidy percentages than other revenue or production policies. At the 90 percent coverage level, the premium subsidy for the group programs is 55 percent. To obtain a comparable subsidy under the Revenue or Production insurance forms, the grower must agree to insure his crop at the 75 percent coverage level, that is, at a much lower level of protection. This provides an inappropriate incentive for growers to choose group plans over plans designed to protect individual producers for their actual risk.

A further concern regarding the group programs is that the maximum coverage level available to group program participants is higher than in other crop insurance programs. For GRP and GRIP, the vast majority of the business is written with only a 10 percent deductible. This compares to a typical deductible of 25 percent for Revenue plans and 35 percent for the APH production plan.

In summary, the industry's concerns include the issue of whether an insured can be uncompensated or over-compensated for a loss, the availability of very high levels of group protection at low rates and high subsidies, and the actuarial soundness of the program. NCIS recently met with RMA to discuss our concerns related to these programs.

We understand that the future may bring an effort to revive some form of premium reduction program, which Congress last year effectively terminated for the 2007 crop year. If that occurs, we believe any effort to revive it should meet several tests. First, a revived discount program should not encourage discrimination among insureds (i.e. cherry picking.) Second, a revived PRP program must assure that reductions in farmer paid premium will not come at the expense of service to the farmer. Third, any sound PRP program requires vigilant and effective regulatory monitoring. Additional expense reporting and cost accounting standards will have to be developed, implemented and monitored. It is not clear whether RMA has the resources necessary to direct such a process or not.

We also believe that before any new programs are developed, we need to get back to the basic fundamentals of insurance and risk management. The NCIS Board of Directors has instructed NCIS to conduct a review of the current programs to determine if some can be consolidated or eliminated. The Industry looks forward to working with Mr. Gould and his RMA staff to streamline and create a much more simplified program that will make it easier for farmers and agents to understand and participate in. We also look forward to working with RMA in the implementation of the "Combo Policy." The changes associated with the "Combo Policy" have the potential to vastly impact the delivery of the crop insurance program.

NEW INITIATIVES

NCIS members have worked hard to make the crop insurance program successful. Although our Industry has been criticized at times by the General Accountability Office and the media, we would like to take this opportunity to assure you, Chairman Moran, and this Committee that our members are VERY aware of their fiduciary responsibilities – not only to their own stockholders and employees, but to the farmers, taxpayers and federal government.

Recently, the NCIS Board of Directors initiated two new projects that are in the planning stages:

1. The first is a Program Integrity Conference, centering on fraud, waste and abuse issues and the ability of the Industry to reduce all three. We are working closely with RMA, the NAIC, OIG, the FBI, Tarleton State University, and others to develop this conference. It is scheduled to take place on May 22-23, 2006, in Overland Park, Kansas.
2. Secondly, it is the intention of NCIS and its members to develop a performance-based discount program that would reward farmers with good insurance or production experience. We feel this program will not only benefit and reward good farmers, but also will create incentives to help reduce fraud, waste and abuse and further promote the integrity of the crop insurance program. A Committee of SRA holders with actuarial and analytical expertise will be convened shortly to help us work on this initiative. All discussions are in the preliminary stages and will require additional evaluation. We envision sharing this information with Congress and RMA as soon as we have a working outline of this program.

NCIS and its staff have met with Mr. Gould on a number of occasions and are working to establish a good relationship with him and his staff. We look forward to continuing our work with him, the FCIC Board of Directors and its chairman, Keith Collins, Congressional Committees, and all who have an interest in continuing the success of this program.

Crop insurance is an effective risk management tool for growers to protect themselves. Growers must have confidence in the stability of the program and purchase adequate coverage. We would be remiss in our responsibilities to the American farmer, and ultimately the American taxpayer, if we did not take the necessary steps to stabilize the crop insurance program, which is the primary financial safety net for American agriculture.